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The Democratic Sweep is a VN-Index Catalyst

This week's historic sweep of the U.S. midterm elections by the Democratic Party is good news for Vietnam's economy and even better news for its stock market. The economic benefits are twofold. First, exports to the U.S. have been the biggest driver of Vietnam's GDP growth this year, and the election result reduces the risk of President Trump disrupting them. Second, the election results make an end to the U.S.–Iran war much more likely. Both developments, however, will have a modest positive effect on Vietnam's economy, compared with the counterfactual.

We had not expected Trump to interfere with Vietnam's exports to the U.S., so the election result largely reinforces our existing outlook; that said, we do expect Vietnam's export growth to the U.S. to slow next year for other reasons discussed below. Similarly, the war has had only a modest negative impact on Vietnam's economy, meaning that its winding down would provide a correspondingly modest boost.

The stock market implications could be considerably greater, so we see the Democratic landslide as a definitive catalyst for the VN-Index in contrast to the modest impact on Vietnam's economic outlook. The VN-Index has essentially been flat this year despite 9% GDP growth in 9M26 and 25% expected earnings growth in 2026 because of concerns over potential heavy tariffs on Vietnam by the Trump administration and, more significantly, elevated domestic interest rates.

We have never viewed tariffs as a serious threat to Vietnam's economy and note that the country's trade surplus with the U.S. has surged and is now the largest of any country. Nevertheless, those concerns have weighed heavily on investor sentiment. To the extent that the election results ease fears of additional disruptive U.S. tariffs, it could remove a significant source of stock-market pessimism.

More importantly, an end to the U.S.-Iran war could help pave the way for lower interest rates in Vietnam. Inflation in Vietnam is currently just above 5%, with roughly 3%pts directly attributable to war-related price increases, including higher diesel and petrol prices. Markets have already begun pricing in expectations that the election results will help bring the U.S.–Iran war to an end: oil prices fell sharply the day after the election, while U.S. stock prices initially rose on hopes that the war will now come to a quick end.

Finally, in addition to inflation pressure, interest rates in Vietnam have also been pushed significantly higher because credit growth significantly outstripped deposit growth over the last two years - but this phenomenon is now easing. In short, the confluence of stable-to-lower interest rates because of lower oil prices and a now-falling banking system loan-to-deposit ratio (LDR), coupled with an easing of trade concerns could push the VN-Index up somewhat in the months ahead, especially given the market's very cheap valuation[1].

Modest Economic Impact

Exports to the U.S. have been the biggest factor boosting Vietnam's GDP growth this year, and pre-midterm elections, there were widespread concerns that Trump's tariffs would dampen those exports. Those concerns were understandable. Vietnam's exports to the U.S. are up 26% this year, driven by a jump in high-tech shipments. Overall, high-tech exports are up more than 50% YoY.

Vietnam is also running a striking trade surplus with the U.S. equivalent to 30% of GDP, alongside a trade deficit with China equivalent to 32% of GDP, prompting concerns about "transshipments" from China to the U.S. via Vietnam. In August, White House advisor Peter Navarro published a report titled "The Great Transshipment Scam," whose arguments we challenged in our own analysis (see our report).

Our response to tariff concerns starts with the gap between very high tariff rates discussed in newspaper articles and the rates that have been actually applied. According to the Economist Intelligence Unit (EIU), the actual average tariff is below 10%, owing to numerous exemptions and carve-outs. These exemptions reflect a practical constraint: the U.S. relies heavily on both China and Vietnam for many categories of imports, making it difficult to impose high tariffs on both countries simultaneously. For mobile phones, for example, the two countries account for around 60% of U.S. imports.

[1] Strong earnings growth and a largely flat VN-Index have significantly reduced market valuations. Based on 12% earnings growth forecast for 2027, the VNI's forward price/earnings-to-growth (PEG) ratio is below 1x.

Classified: Public

Market participants are currently focused on the U.S. Section 301 investigation into Vietnam's intellectual property (IP) protection and enforcement, and the upcoming determination deadline at the end of this month. We would not be surprised if that determination deadline is extended (which has happened before) and we do not expect punitive tariffs even if the USTR makes an adverse finding, noting that Indonesia negotiated an agreement with the U.S. that avoided any material additional trade penalties following an adverse determination by USTR in a similar proceeding earlier this year.

This brings us back to why we view the Democratic landslide as only a modest positive for Vietnam's economy. Our central expectation was that Vietnam would already avoid a substantial effective tariff burden. Finally, the signs of a sharp slowdown in Vietnam's export growth to the U.S. were already evident before the election.

FDI firms' new export orders peaked in July and are now contracting, according to the Purchasing Managers' Index (PMI). More importantly, their imports of production inputs point in the same direction. Earlier this year, these companies aggressively imported materials needed to manufacture exports, helping push Vietnam's trade deficit to the equivalent of 7% of GDP around midyear. However, this gap has substantially narrowed, a clear indicator that export growth to the U.S. was already set to decelerate sharply next year, irrespective of the US mid-term election results.

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